

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 562
 Appropriations

(Delegate Feldmark, *et al.*)

**Primary and Secondary Education - Maintenance of Effort - Inflation
 Adjustment (Maintenance of Effort Modernization Act)**

This bill alters the maintenance of effort (MOE) requirement that partly determines the county contribution to the local boards of education by adjusting the *per pupil* MOE amount by inflation. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: No impact in FY 2027. General fund expenditures decrease by \$35.4 million in FY 2028; \$40.6 million in FY 2029; \$33.0 million in FY 2030; and by \$12.4 million in FY 2031. State revenues are not affected.

(\$ in millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	(35.4)	(40.6)	(33.0)	(12.4)
Net Effect	\$0.0	\$35.4	\$40.6	\$33.0	\$12.4

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: For some county governments, the local appropriation to the board of education increases substantially, beginning in FY 2028. The combined State and local funding for public schools is altered for many local school systems beginning in FY 2028. **This bill expands a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: Appendix – Public School Funding in Maryland includes an overview of local funding for public schools, including information on *per-pupil* MOE and local share. The Appendix also covers State aid to public school programs, including the guaranteed tax base (GTB) program and the education effort adjustment (EEA), both of which are sensitive to levels of local funding. Information on [State and local funding for public schools](#) on a *per pupil* basis for fiscal 2026 is provided in the *Local Government Overview Report*. The report is available on the Department of Legislative Services [website](#).

Chapter 36 of 2021, beginning in fiscal 2024, repealed the requirement that a county that is below the statewide five-year moving average education effort level must increase its per pupil MOE amount by the lesser of (1) the increase in local wealth per pupil; (2) the statewide average increase in local wealth *per pupil*; or (3) 2.5%. (The bill increases MOE for all counties.)

The annual “inflation adjustment” for purposes of public school funding is at minimum 0% and is otherwise the lesser of the increase in (1) the implicit price deflator for State and local government expenditures for the second prior fiscal year; (2) the Washington Metropolitan Area consumer price index for all urban consumers for the second prior fiscal year; or (3) 5%.

State Fiscal Effect: The projected fiscal 2028 to 2031 impact of the bill, by program, is detailed in **Exhibit 1**. Increasing *per-pupil* MOE generally tends to increase the required local appropriation to the board of education (local funding for public schools). Given the effective date of the bill, this analysis assumes that the bill alters local appropriations beginning with fiscal 2028, thus altering State funding via EEA beginning in fiscal 2028 and GTB, which is sensitive to prior year funding, beginning in fiscal 2029. State GTB funding for eligible local school systems tends to increase as local appropriations increase, as they do under the bill. However, as discussed in the Appendix, EEA relief to counties, matched by State EEA funding (thus holding local school systems harmless), is only allowed to the degree that *per-pupil* MOE is met each year. The increases to MOE reduce EEA relief, and the State EEA funding to an extent that far more than offsets increased State GTB funding under the bill.

Exhibit 1
State Aid Expenditure Changes by Program
(\$ in Thousands)

<u>Program</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
Education Effort Adjustment	(\$35,438)	(\$42,162)	(\$33,107)	(\$13,015)
Guaranteed Tax Base	0	1,558	131	622
Total Change	(\$35,438)	(\$40,604)	(\$32,977)	(\$12,393)

Source: Department of Legislative Services

Current projections indicate that revenues in the Blueprint for Maryland’s Future Fund (Blueprint), including prior-year fund balances, will be less than the amount required to cover current law increases to annual expenditures under the Blueprint beginning in fiscal 2028. Consequently, changes in State expenditures under the bill are in the form of general fund expenditure decreases.

Local Fiscal Effect: County government expenditures for certain jurisdictions increase due to increased *per pupil* MOE under the bill. Increases in anticipated county expenditures under the bill are mitigated (1) by the fact that many counties tend to provide more than the required minimum appropriation to public schools each year and (2) because for some counties local share, after relief, is either greater than or close to totals under MOE. **Exhibit 2** shows the anticipated changes in county government funding for public schools under the bill.

Exhibit 2
Estimated Change in Local Appropriations under the Bill
Fiscal 2028-2031
(\$ in Thousands)

<u>County</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
Allegany	\$432	\$981	\$1,447	\$1,502
Anne Arundel	3,806	5,407	1,375	0
Baltimore City	6,223	(1,239)	233	(40)
Baltimore	547	0	1,380	0
Calvert	0	0	0	0
Caroline	86	(36)	15	(6)
Carroll	0	0	0	0
Cecil	0	0	0	0
Charles	0	78	0	0
Dorchester	0	0	0	0
Frederick	526	323	0	0
Garrett	429	0	0	0
Harford	0	0	0	0
Howard	0	0	0	0
Kent	0	0	0	0
Montgomery	0	4,394	9,852	0
Prince George's	27,581	41,873	32,985	12,857
Queen Anne's	0	0	0	0
St. Mary's	0	0	0	0
Somerset	369	(36)	10	(3)
Talbot	44	0	0	0
Washington	0	0	0	0
Wicomico	0	0	0	0
Worcester	345	88	70	0
Total	\$40,390	\$51,833	\$47,367	\$14,310

Source: Department of Legislative Services

Exhibit 3 shows the estimated change in State aid received by public schools by county, consistent with statewide formula program changes shown in Exhibit 1. **Exhibit 4** shows the combined impact of both State aid and local appropriations changes by county for fiscal 2028 through 2031. Local school system expenditures change accordingly.

Exhibit 3
Estimated Change in State Aid to Public Schools under the Bill
Fiscal 2028-2031
(\$ in Thousands)

<u>County</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
Allegany	\$0	\$173	\$386	\$573
Anne Arundel	0	0	0	0
Baltimore City	(6,320)	1,239	(233)	40
Baltimore	0	0	0	0
Calvert	0	0	0	0
Caroline	0	36	(15)	6
Carroll	0	0	0	0
Cecil	(1,537)	0	0	0
Charles	0	0	3	0
Dorchester	0	0	0	0
Frederick	0	0	0	0
Garrett	0	0	0	0
Harford	0	0	0	0
Howard	0	0	0	0
Kent	0	0	0	0
Montgomery	0	0	0	0
Prince George's	(27,581)	(41,996)	(33,107)	(12,980)
Queen Anne's	0	0	0	0
St. Mary's	0	0	0	0
Somerset	0	(56)	(10)	(32)
Talbot	0	0	0	0
Washington	0	0	0	0
Wicomico	0	0	0	0
Worcester	0	0	0	0
Total	(\$35,438)	(\$40,604)	(\$32,977)	(\$12,393)

Source: Department of Legislative Services

Exhibit 4
Estimated Change in State Aid and Local Appropriations under the Bill
Fiscal 2028-2031
(\$ in Thousands)

<u>County</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
Allegany	\$432	\$1,154	\$1,833	\$2,075
Anne Arundel	3,806	5,407	1,375	0
Baltimore City	(97)	0	0	0
Baltimore	547	0	1,380	0
Calvert	0	0	0	0
Caroline	86	0	0	0
Carroll	0	0	0	0
Cecil	(1,537)	0	0	0
Charles	0	78	3	0
Dorchester	0	0	0	0
Frederick	526	323	0	0
Garrett	429	0	0	0
Harford	0	0	0	0
Howard	0	0	0	0
Kent	0	0	0	0
Montgomery	0	4,394	9,852	0
Prince George's	0	(123)	(123)	(123)
Queen Anne's	0	0	0	0
St. Mary's	0	0	0	0
Somerset	369	(93)	0	(35)
Talbot	44	0	0	0
Washington	0	0	0	0
Wicomico	0	0	0	0
Worcester	345	88	70	0
Total	\$4,952	\$11,229	\$14,391	\$1,918

Source: Department of Legislative Services

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Prince George's County; Maryland Association of Counties; Maryland State Department of Education; Department of Budget and Management; Department of Legislative Services

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Appendix – Public School Funding in Maryland

State Aid for Public Schools

Blueprint for Maryland’s Future and Education Funding Formulas

The majority of direct State aid to public schools (excluding teachers’ retirement) is determined by enrollment-based funding formulas generally found in Title 5, Subtitle 2 of the Education Article. This includes the foundation formula, which makes use of a per pupil foundation amount (PPFA) and an “enrollment count,” which is the greater of (1) the prior year full-time equivalent (FTE) enrollment and (2) the three-year moving average of FTE enrollment. Collectively, the formulas account for a uniform base cost per pupil that is necessary to provide general education services to students in every local school system and address the additional costs associated with educating three student populations: special education students; students eligible for free and reduced-price meals; and students who are English learners. Under Chapter 237 of 2025, beginning in fiscal 2026, the special education, compensatory education, and English learner formulas – structured similarly to the foundation program, but targeting the three student populations mentioned above – use statutory per-pupil dollar amounts (rather than percentage weights of PPFA), with amounts specified through fiscal 2033 and inflation adjustments thereafter.

Most State education aid formulas also include wealth equalization across counties, compensating for differences in local wealth by providing less aid per pupil to the more wealthy counties and more aid per pupil to the less wealthy counties. Although on the whole most State aid formulas are designed to have the State pay roughly one-half of program costs, the State’s share for the less wealthy counties is higher than 50%, and the State’s share for more wealthy counties is lower than 50%. For purposes of determining State and local shares of funding, wealth equals the sum of 100% of assessed public utilities real property value, 40% of the assessed value of all other real property, 50% of the assessed value of personal property, and 100% of net taxable income.

Major education aid programs include the foundation formula, comparable wage index (CWI), guaranteed tax base (GTB), compensatory education, concentration of poverty grants (CPG), English learner, special education, full-day prekindergarten, college and career ready (CCR), transitional supplemental instruction (through fiscal 2026), career ladder, and transportation grant programs.

The Blueprint for Maryland’s Future (Blueprint) legislation, including Chapter 771 of 2019; Chapters 36 and 55 of 2021; and Chapter 33 of 2022 established new programs and updated education funding formulas, to among other provisions provide additional

support for schools serving high concentrations of students living in poverty, including community schools and wraparound services, and increased support for students learning English and students with disabilities. Chapter 237, among other provisions, curtailed foundation program per pupil funding.

Blueprint for Maryland's Future Fund

The Blueprint for Maryland's Future Fund (BMFF) was created by Chapter 771 as the successor to the Commission on Innovation and Excellence in Education Fund. The BMFF is intended to assist in providing adequate funding for early childhood education and primary and secondary education to provide a world-class education to students in Maryland.

Comparable Wage Index

CWI provides additional funds to local school systems with above-average personnel costs but does not decrease funding for local school systems with below-average costs. CWI adjustment values are fixed in statute and range from 0.047 in Frederick County to 0.166 in Montgomery County. The formula multiplies the adjustment value by the foundation program for a given county, which is the PPFA multiplied by the enrollment count for the county.

Guaranteed Tax Base

The GTB program is intended to encourage less wealthy jurisdictions to maintain or increase local education tax effort, *i.e.*, local education appropriation as a percentage of local tax base. The program provides additional State education aid to counties that (1) have less than 80% of the statewide average wealth per pupil and (2) provide local education funding above the minimum local share required by the Foundation Program. The program uses local education tax effort and wealth to determine State aid amounts for each eligible local school system.

Concentration of Poverty Grant Program

Blueprint legislation provides additional support for schools serving high concentrations of students living in poverty through the CPG Program. CPG funding has two components, a personnel grant and a per-pupil grant.

Personnel Grants are provided to employ a community school coordinator with specified qualifications and provide full-time coverage by at least one health care practitioner. A county that provides health coverage or community school services with funds other than the personnel grant must continue to provide those services through fiscal 2030. If the

personnel grant provided to an eligible school exceeds the costs to employ those positions and provide health coverage, the eligible school may use excess funds to provide wraparound services and complete the community school needs assessment. The personnel grant is a State-funded categorical amount that increases with inflation.

Per-pupil Grants are provided for each qualifying school following the completion of a community school needs assessment, and each eligible school must use the per-pupil grant to provide wraparound services and other programs and services as identified in the school needs assessment. CPG funds must generally be distributed by the local board to each eligible school. However, if the local school system has at least 10 eligible schools or at least 35% of a local school system’s schools are eligible schools, the local board may expend up to 50% of CPG personnel and per-pupil grants on behalf of eligible schools on program costs that directly benefit the school, and in accordance with a plan developed in consultation with eligible schools that ensures that each eligible school receives the required positions/coverage and services. Per-pupil grants are only wealth equalized for districts that receive the minimum State funding (40%) under the compensatory education formula; for all other districts, the State pays the full amount. The local funding percentage is based on the compensatory education wealth equalization formula.

The following table lays out the phase-in of the two components of the funding.

Concentration of Poverty Grants Phase-in

<u>School Poverty Percentage</u>	<u>Year Personnel Phased-in</u>	<u>Year Per Pupil Phased-in</u>
> = 80%	FY 2020	FY 2022
75%-80%	FY 2021	FY 2023
70%-75%	FY 2022	FY 2024
65%-70%	FY 2023	FY 2025
60%-65%	FY 2024	FY 2026
55%-60%	FY 2025	FY 2027

School concentration percentages are based on a three-year average of compensatory education enrollment in each public school.

For the per-pupil grant, schools receive funding along a sliding scale according to their CPG level, the three-year average percentage of compensatory education enrollment students at each school. Schools at or below 55% CPG level receive no funding per pupil. Schools above 55% and below 80% CPG level see the per-pupil amount increase until, for schools at or above 80% CPG level, per-pupil funding reaches the statutorily established per-pupil maximum amount. The per-pupil amount established by this sliding scale is then

multiplied by a school’s compensatory education enrollment in the second prior fiscal year to get a calculated grant amount. A percentage increment of per-pupil funding is then applied for each of six years of eligibility, beginning with 16% in the first year of eligibility and culminating in 100% funding by the seventh year, is specified in statute as shown in the table below.

<u>Eligibility Year</u>	<u>Share of CPG Per Pupil</u>
NOT ELIGIBLE	0%
Year 1	16%
Year 2	32%
Year 3	37%
Year 4	55%
Year 5	66%
Year 6	75%
Year 7 and Beyond	100%

Beginning in fiscal 2030, however, all schools receive 100% of the calculated per-pupil grant amount regardless of year of eligibility.

College and Career Ready Funding

It is the goal of the State that students enrolled in public school will meet the CCR standard adopted by the State Board of Education before the end of the 10th grade and no later than the time the student graduates from high school. In addition to funding for non-CCR and CCR students provided within the foundation formula, funding is provided for students in grades 9 through 12 who have met the CCR standard. Per-pupil funding, covered by both State and local shares, begins at \$517 in fiscal 2022 and is inflation adjusted each subsequent year. These funds support various pathways and educational options available to students who meet the CCR standard.

Career Ladder for Educators

Under Chapter 36, as amended by Chapter 55, a four-level career ladder must be implemented by each local board of education by July 1, 2024. Level one is a State-certified teacher. Level two is a teacher pursuing a master’s degree, 30 credits of a State board-approved program of study, or National Board Certification (NBC). Level three is a teacher who has an NBC or, if NBC or a comparable assessment is not available in the teacher’s content area, a master’s degree in that area. Level three includes an assistant principal. Level four is a teacher on the teacher leadership track or administrative track of the career ladder, each of which is further divided into tiers. If a

teacher achieves level three or four on the career ladder by being an NBC teacher, the teacher must retain NBC status in order to remain at that level. The State and county governments share the cost of required salary increases for educators reaching certain levels on the career ladder, including for attaining and retaining NBC status.

Grow Your Own Educators

Chapters 227 and 228 of 2024 established the Grow Your Own Educators Program to provide support to eligible provisional teachers and noncertified education support professionals interested in teaching who pledge to fulfill a service obligation. Administered by the Maryland State Department of Education (MSDE), the program provides grants to local school systems in collaboratives for certain teacher candidates' expenses and program administration costs. Chapter 237 made several alterations to the program, including clarifying that the program purpose is to support collaboratives that offer teacher licensure programs with on-the-job experiential learning for eligible individuals, not to directly support the individuals.

Full-day Prekindergarten

The full-day prekindergarten funding formula provides State and local funding for voluntary full-day prekindergarten for (1) children who are three or four years old from low-income families and homeless youths and whose family income is less than or equal to 300% of the federal poverty level (FPL) (Tier I children) and (2) four-year-olds from families whose income is – for fiscal 2026 funding – between 300% and 360% of FPL, and beginning fiscal 2027 between 300% and 600% of FPL (Tier II students).

There is no family share for Tier I students. For Tier II students, a sliding scale developed by MSDE determines the family share. For four-year-olds from families with income above 600% (Tier III), the family share covers the full cost of full-day prekindergarten. However, a local board may provide up to 100% of the family share on behalf of the family. Local governments are required to fund the local share of the full-day prekindergarten program. The funding formula for full-day prekindergarten is based in part on the per-pupil amount. The per-pupil amount is \$14,473 for fiscal 2026, escalates to \$19,950 in fiscal 2027 and 2028, and increases annually by inflation beginning in fiscal 2029.

Beginning in the 2024-2025 school year, prekindergarten slots provided by eligible private providers must account for at least 10% of the total prekindergarten slots provided by eligible prekindergarten providers in each county. The proportion of eligible private provider prekindergarten slots in each county increases by 10 percentage points every school year, until, in the 2028-2029 school year, and each subsequent school year, eligible private provider prekindergarten slots account for at least 50% of eligible prekindergarten provider prekindergarten slots in each county.

Priority in expanding full-day prekindergarten slots is given to three- and four-year-olds who are Tier I children, children with disabilities regardless of family income, and children living in homes where English is not the primary spoken language. The proportion of enrolled Tier I children who are three- and four-year-olds must increase annually until all such children are enrolled in a full-day prekindergarten program.

Prekindergarten Expansion Grant Program

The Prekindergarten Expansion Grant Program, administered by MSDE, is intended to broaden the availability of high-quality prekindergarten and school readiness services throughout the State for children and their families in coordination with the expansion of publicly funded full-day prekindergarten under the Blueprint. The program is a competitive grant program to provide grants to qualified providers, including (1) a local board of education or (2) if partnering with a local board under a memorandum of understanding, a State accredited or nationally accredited child care program or a nonpublic school approved by MSDE to provide prekindergarten services.

Grants may be used to add available slots to expand prekindergarten services, including (1) establishing or expanding full-day prekindergarten for eligible young children and (2) expanding existing half-day prekindergarten programs into full-day prekindergarten for eligible young children. Grants may not be used (1) to supplant existing funding for prekindergarten services; (2) for capital improvements; or (3) to fund the same full-day prekindergarten slot that is funded under the full-day prekindergarten program established by Blueprint legislation.

Through fiscal 2029, the Governor must annually appropriate to the Prekindergarten Expansion Fund (established to provide funds to the program) an amount that is at least equal to the total amount of all funds received by the program in the prior fiscal year. Beginning in fiscal 2030, funds appropriated to the Prekindergarten Expansion Fund must be consolidated into the publicly funded full-day prekindergarten program.

Public School Transportation

All school systems are required to arrange transportation to and from school for all public school students and are required to provide transportation to and from school for all disabled students. The State provides annual aid to public schools for the purpose of funding student transportation. The funding consists of two parts: a base grant that is adjusted annually; and a per-pupil grant based on the number of students with special transportation needs.

Local Funding for Public Schools

Maintenance of Effort and Local Share

Each year, the county government (including Baltimore City) is required to appropriate funds to the local board equivalent to the greater of the per-pupil maintenance of effort (MOE) requirement or the local share amount of all wealth-equalized formulas. The per-pupil MOE amount is based upon the enrollment count as defined above. The local share of major education aid programs equals the local share of the foundation formula, compensatory education, English learner, special education, CWI, full-day prekindergarten, CCR, transitional supplemental instruction (through fiscal 2026), and career ladder grant programs. Also, counties that benefit from the compensatory education State funding floor are required to fund the local share of CPG. However, for some counties, the combined local share across these several programs is subject to adjustments described below. Additionally, under Chapter 336 of 2024, the State and county governments must pay for Blueprint implementation coordinator salaries in the same proportion as the foundation program.

Education Effort Adjustment to Local Share Requirement

Local governments are required to fund the local share of the foundation program and the required local shares for several other funding formula programs. The law also includes a mechanism for establishing a maximum local share that a county must fund each year. This involves “local education effort,” which is determined for each county by dividing the county’s local share of major education aid by the county’s wealth. An “education effort index,” which is the local education effort divided by the “State average education effort” is then determined. A “maximum local share” is calculated for each county, which is the county’s local wealth multiplied by the State average education effort.

Each county with an education effort above 1.0 for two consecutive years receives relief based upon its “education effort adjustment,” which is the amount by which the calculated local share exceeds the maximum local share. This relief (which results in increases to State aid), is provided to counties within one of three tiers, based on whether the education effort is (1) greater than 1.0 but less than 1.15; (2) at least 1.15 but less than 1.27; or (3) at least 1.27. State relief for the first tier is phased up from 15% of the education effort adjustment in fiscal 2023 to 50% by fiscal 2030. State relief for the second tier is phased up from 20% of the education effort adjustment in fiscal 2023 to 100% by fiscal 2030. State relief for the third tier is 100% beginning in fiscal 2023. However, the education effort adjustment for a county is only allowed to the degree that per-pupil MOE is met each year.

Additional Reductions to Local Share

A county may be eligible for a reduction in the required local share of major aid formulas in three additional ways: (1) if a county receives State funds from the GTB program, the

local share may be reduced by the amount of GTB funds, except that for Baltimore City only the amount above \$10.0 million may be reduced from the local share; (2) if a county receives State funds to support the minimum funding floors of 15% for the foundation and 40% for the targeted programs; and (3) if a county has a CWI of at least 0.13, the local share of CWI may be reduced by 50%. However, in all of these cases, the local share may not be reduced to below the required per-pupil MOE amount.

Minimum School Funding Requirement

Each local board of education must distribute to its public schools at least 75% of the applicable per-pupil funding amounts generated under the foundation program and most major education aid formulas. In addition, local boards must distribute 100% of the per-pupil amounts provided under the concentration of poverty grant program and for eligible private provider prekindergarten slots.